

STATE OF INDIANA)
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

HCC Insurance Company)
13403 Northwest Freeway)
Houston, Texas 77040)

Examination of **HCC Insurance Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **HCC Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on January 28, 2010, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **HCC Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

March 11, 2010
Date

Connie Ridinger
Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 1807

STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

HCC Insurance Company)
13403 Northwest Freeway)
Houston, Texas 77040-6094)

Examination of **HCC Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **HCC Insurance Company** (hereinafter "Company") for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on January 26, 2010.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on January 28, 2010 and was received by the Company on February 2, 2010.

The Company did not file any objections.


NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **HCC Insurance Company** as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the **HCC Insurance Company** to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 11th day of March, 2010.



Douglas Webber
Acting Insurance Commissioner



STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
HCC INSURANCE COMPANY
NAIC COMPANY CODE 36781

As of
December 31, 2008

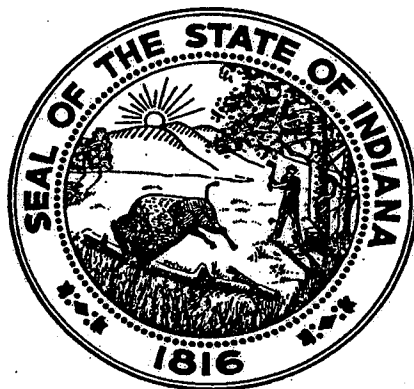


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	3
TERRITORY AND PLAN OF OPERATION.....	3
GROWTH OF THE COMPANY.....	3
MANAGEMENT AND CONTROL.....	4
Directors.....	4
Corporate Governance.....	5
CONFLICT OF INTEREST.....	5
OATH OF OFFICE	6
CORPORATE RECORDS.....	6
AFFILIATED COMPANIES.....	6
Organizational Structure.....	6
Affiliated Agreements.....	6
Organizational Chart	7
FIDELITY BOND AND OTHER INSURANCE.....	7
STATUTORY AND SPECIAL DEPOSITS.....	8
REINSURANCE.....	8
Assumed Reinsurance	8
Ceded Reinsurance	8
RESERVES.....	9
ACCOUNTS AND RECORDS	9
FINANCIAL STATEMENTS.....	10
Assets.....	10
Liabilities, Surplus and Other Funds.....	11
Statement of Income.....	12
Capital and Surplus Account.....	13
COMMENTS ON THE FINANCIAL STATEMENTS.....	14
OTHER SIGNIFICANT FINDINGS	14
SUBSEQUENT EVENTS.....	14
MANAGEMENT REPRESENTATION	14
CONCLUSION	15



STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

CAROL CUTTER, Commissioner

January 27, 2010

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23218

Honorable Carol Cutter
Commissioner, Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioners,

Pursuant to the authority vested in Appointment Number 3606, an examination has been made of the affairs and financial condition of:

HCC Insurance Company
13403 Northwest Freeway
Houston, Texas 77040

hereinafter referred to as the "Company," an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Houston, Texas.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of Indiana Department of Insurance (IDOI) as of the period ending December 31, 2004. The present risk focused examination covered the period from January 1, 2005 through December 31, 2008, and was conducted by Huff, Thomas & Company (HuffThomas) and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the examination, the IDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by PricewaterhouseCoopers LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

David Shepherd, FCAS, MAAA, of Merlino & Associates, Inc., a consulting actuary appointed by the IDOI, conducted a review of the Company's loss reserves and loss adjustment expense reserves as of December 31, 2008.

The examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

HISTORY

The Company was incorporated in 1979 as the Lumbermens National Insurance Company. In 1985, the Company was acquired by Brougher Insurance Group, Inc. and the Company's name was changed to North Atlantic Casualty and Surety Insurance Company, Inc. On June 1, 1991, the Company's name was changed to VASA North Atlantic Insurance Company.

Effective January 1, 1996, Eureka B.V. transferred its stock and ownership of VASA North America, Inc. to Seaboard North America Holdings, Inc. which in turn was wholly-owned by Eureka B.V. and was the immediate parent of the Seaboard Life Insurance Company, Vancouver, British Columbia. Seaboard North America Holdings, Inc. was created to consolidate the North American holdings of Eureka B.V. and strengthen the operations and market position of its members. In December 1998, the Company was acquired by Centris Group Inc., and its name was subsequently changed to Centris Insurance Company. In December 1999, the Company was acquired by HCC Insurance Holdings, Inc. (HCC), a Delaware corporation. After the acquisition, the Company became a subsidiary of HCC Life Insurance Company.

Effective September 1, 2004, the Company changed its name to HCC Insurance Company. On December 31, 2004, HCC Life Insurance Company made an extraordinary dividend of the Company's common stock to Houston Casualty Company. As a result of that transaction, the Company became a direct subsidiary of Houston Casualty Company.

CAPITAL AND SURPLUS

As of December 31, 2008, the Company had 10,000 shares of \$2,500 par value common stock authorized and 1,064 shares issued and outstanding. The amount of issued common capital stock did not change during the period under examination. During 2006, Houston Casualty Company made a capital contribution to the Company of \$10 million, with approval from the Texas Department of Insurance. For the current examination which covers the period from January 1, 2005 through December 31, 2008, no dividends were declared or paid to the sole stockholder.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in thirty-six (36) states and the District of Columbia. It is authorized to write accident and health and general property and casualty lines of business. The Company previously marketed and sold professional liability and personal automobile insurance coverages. The Company discontinued its professional liability program at the end of 1998. All remaining professional liability business was in runoff and 100% ceded to Transatlantic Reinsurance Company through a loss portfolio aggregate quota share reinsurance agreement.

The Company began writing commercial property and liability policies through an affiliated underwriting agency G B Kenrick & Associates, Inc., dba Kenrick Corporation (Kenrick) in September 2006. Because Kenrick is not licensed as a Managing General Agent in the state of Indiana, the Company entered into a "Managing General Underwriter's Agreement" with Professional Indemnity Agency, Inc., of New York and Professional Indemnity Agency, Inc., (Collectively referred as PIA) effective January 1, 2007 which was filed with IDOI on July 29, 2008. As a division of PIA, Kenrick utilizes the licenses and agreements of PIA. All of the Company's business produced by Kenrick flows through PIA. During 2008, HCC Insurance Holdings, Inc. placed all new business produced by Kenrick into another affiliate, U.S. Specialty Insurance Company, and the Company's remaining Kenrick business is in runoff.

The runoff business produced by Kenrick includes commercial multiple peril, commercial auto liability, boiler & machinery and auto physical damage. All of the Kenrick business is ceded to the Company's parent, Houston Casualty Company, under the terms of a 100% quota share agreement.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2008	\$28,839,966	\$267,031	\$28,572,935	\$8,308	\$645,982
2007	31,727,204	3,802,042	27,925,162	8,130	691,191
2006	32,272,816	5,018,540	27,254,276	5,954	477,927
2005	17,526,074	747,741	16,778,333	6,132	404,544
2004	16,759,313	385,391	16,373,922	6,798	1,351,455

The increase in the Company's admitted assets and capital and surplus from 2005 to 2006 was primarily due to a capital contribution of \$10,000,000 by its parent Houston Casualty Company (Houston Casualty). The increase in liabilities from 2005 to 2006 was mainly attributable to ceded reinsurance premiums payable on the Company's 100% quota share reinsurance treaty with Houston Casualty which became effective September 1, 2006.

MANAGEMENT AND CONTROL

Directors

The Company's Articles of Incorporation provide that the number of Directors of the Corporation shall not be less than five or more than fifteen, with the exact number to be specified from time to time in the manner provided by the Corporation's Bylaws. The following is a listing of persons serving as Directors at December 31, 2008:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Edward H. Ellis, Jr. * Houston, TX	HCC Insurance Holdings, Inc., Former Executive Vice President and Chief Financial Officer
Stephen P. MacDonough Houston, TX	Houston Casualty Company Vice President and Chief Financial Officer
John N. Molbeck, Jr. Houston, TX	HCC Insurance Holdings, Inc., President and Chief Operating Officer
Stephen H. Paul ** Carmel, Indiana	Baker and Daniels Attorney
Michael J. Schell Houston, TX	Houston Casualty Company Chief Executive Officer

* Resigned effective September 1, 2009

** Resigned effective June 11, 2009

Officers

The Company's Bylaws state the officers of the Company, who shall be elected by the Board of Directors, shall consist of a President, one or more Vice Presidents, a Secretary, and such other officers as the Board of Directors may determine from time to time. The following is a list of key officers and their respective titles as of December 31, 2008:

<u>Name</u>	<u>Title</u>
Michael J. Schell	President and Chief Executive Officer
Edward H. Ellis, Jr.	Executive Vice President
John N. Molbeck, Jr.	Executive Vice President
Annette J. Goodreau	Senior Vice President and Chief Actuary
James L. Simmons	Vice President & Secretary
Sharon L. Brock	Vice President
Joycelyn M. Ray	Vice President and Assistant Secretary
Stephen P. MacDonough	Vice President and Chief Financial Officer
Hamendra P. Ojha	Vice President & Treasurer
Christopher S. Throckmorton	Vice President and Chief Pricing Actuary

Corporate Governance

The Board of Directors approves all significant transactions of the Company's officers, including investment transactions, on a quarterly basis. In addition to the board's involvement with managing the Company, the Board of Directors of HCC also provides oversight to the Company's operations. As of December 31, 2008, members of the Board of Directors of HCC were comprised of 11 individuals, of which eight individuals were independent members.

The HCC board provides governance through the following committees: Audit, Compensation, Investment and Finance, Nominating & Corporate Governance and Enterprise Risk Oversight. Each of these committees functioned under the provisions of a charter. Each of the committee charters were determined to provide adequate governance over the respective areas of HCC and its subsidiaries' operations. From a review of the committee minutes, it was determined the committees were operating in accordance with the provisions of their respective charters and each committee was appropriately staffed.

Based on a review of the information contained in each of the Directors and executive officer's biographical affidavits and through management interviews, it was determined that these individuals are adequately qualified and have the experience necessary to conduct the operations and affairs of the Company.

Overall, the Company's corporate governance structure was determined to be effective. Corporate policies and strategies as designed and implemented by the board and management are effectively communicated throughout the HCC organization. In addition, it was determined the board and key executives set an appropriate "tone at the top" with a clear commitment to set ethical behavior throughout the Company.

CONFLICT OF INTEREST

Directors, officers and certain employees are required to annually complete a questionnaire which discloses conflicts of interest. It was determined that all officers and Directors serving during the examination period completed the required conflict of interest questionnaire. No exceptions were noted.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. It was noted during the examination the board members did subscribe to an Oath of Office.

CORPORATE RECORDS

The Shareholder meeting minutes, unanimous written consent of the Board of Directors and HCC committee meeting minutes were reviewed for the period under examination and through the fieldwork date. Significant actions taken during each meeting were noted.

AFFILIATED COMPANIES

Organizational Structure

The Company is a wholly owned subsidiary of Houston Casualty Company and is a member of a holding company system whereby HCC is the ultimate parent. The Company's abbreviated organization chart as included below shows its position and relationship with other insurers within HCC.

Affiliated Agreements

As of December 31, 2008, the Company operated under the following intercompany agreements:

Intercompany Cost Allocation Agreement

Effective January 1, 2000, the Company entered into an Intercompany Cost Allocation Agreement with HCC Service Company, Ltd. (HCCSC) whereby HCCSC agrees to provide certain management functions to the Company. During 2008, the Company incurred approximately \$180,000 of fees under the terms of this agreement.

Financial and Statutory Accounting Tax Allocation Agreement

The Company and other members of HCC are parties to a Financial and Statutory Accounting Tax Allocation Agreement (Tax Agreement) for the purpose of allocating federal income taxes among the member companies of HCC. The Company entered into the Tax Agreement effective January 1, 2000.

Managing General Underwriter's Agreement

The Company entered into a Managing General Underwriter's Agreement (MGU Agreement) with Professional Indemnity Agency, Inc. and Professional Indemnity Agency, Inc. of New York effective January 1, 2007. During 2008 the Company paid commissions of \$3,295,000 under the provisions of the MGU Agreement.

The IDOI did not disapprove of any of the Company's agreements with its affiliates.

Organizational Chart

The following abbreviated organization chart shows the insurance entities and certain holding companies within HCC:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
HCC Insurance Holdings, Inc.		DE
Illium, Inc.		DE
Houston Casualty Company	42374	TX
U.S. Specialty Insurance Company	29599	TX
SureTec Financial Corporation (23.47 percent)		DE
SureTec Insurance Company	10916	TX
HCC Life Insurance Company	92711	IN
Perico Life Insurance Company	85561	DE
HCC Insurance Company	36781	IN
HCC Reinsurance Company, Ltd.		Bermuda
Avemco Corporation		DE
Avemco Insurance Company	10367	MD
HCC Specialty Insurance Company	11243	OK
HCC Insurance Holdings (International), Ltd.		UK
HCC Int'l Insurance Company PLC		UK
Houston Casualty Co. Europe, SA		Spain
Surety Associates Holdings Company, Inc.,		NM
American Contractors Indemnity Company	10216	CA
USSC Holdings, Inc.		MD
United States Surety Company	10656	MD
Ponderosa Management, Inc.,		CO
Pioneer General Insurance Company	12670	CO

Note: All companies were 100% owned unless otherwise indicated.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued to HCC and its subsidiaries. The Company is insured through two layers of coverage for losses up to \$10,100,000 without a deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

Other significant insurance coverages in force at December 31, 2008, included Umbrella Liability, Employment Practices Liability, Fiduciary Liability, and Directors & Officers Liability. All other coverages were determined to be adequate as of December 31, 2008.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following special deposits that were comprised of U.S. Treasury Notes as of December 31, 2008:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Georgia	\$ 35,114	\$ 39,178
Indiana	2,033,674	2,268,356
Louisiana	148,912	168,094
Massachusetts	214,904	223,256
Missouri	508,105	568,975
New Mexico	214,904	223,256
North Carolina	297,825	336,188
South Carolina	163,737	170,100
Virginia	266,072	276,413
Total Deposits	<u>\$ 3,883,247</u>	<u>\$ 4,273,816</u>

REINSURANCE

Assumed Reinsurance

The Company did not assume any new business during the period covered by this examination.

Ceded Reinsurance

Effective September 1, 2006, the Company entered into a Property Casualty Quota Share Reinsurance Agreement (Quota Share Agreement). Under the terms of the Quota Share Agreement, the Company cedes 100% of its liabilities on business classified as property and casualty. With the exception of two accident and health policies, the Company ceded all of its business produced during the examination period to Houston Casualty under this agreement.

In addition to the reinsurance coverage provided by its parent, the Company entered into a reinsurance agreement with Transatlantic Reinsurance Company effective June 1, 1998. This agreement is a loss portfolio reinsurance agreement with Transatlantic Reinsurance Company that reinsures 100% of the business classified as Professional Liability, Non-Standard Auto Programs, and business produced and/or underwritten by Brougier Syndicate, Inc. on the New York Insurance Exchange. The agreement provides for an aggregate limit of liability of \$11,500,000.

The Company properly accounted for transactions under this agreement as retroactive reinsurance in accordance with the requirements of SSAP No. 62. In the 2008 Annual Statement, the Company reported a liability for the losses and loss adjustment expenses covered under this agreement as an aggregate write-in contra-liability of \$1,335,258.

It was determined that both reinsurance agreements provided for risk transfer in accordance with the requirements of SSAP No. 62. In addition, the agreements contained the necessary language as required by the provisions of SSAP No. 62 and Indiana law. No exceptions were noted.

RESERVES

Mark R. Proska, FCAS, MAAA, is a consulting actuary with the firm of PricewaterhouseCoopers LLP. Mr. Proska was appointed by the Board of Directors on January 4, 2000 to render an opinion on the statutory-basis loss reserves of the Company. Mr. Proska rendered an opinion on such reserves for the years ended December 31, 2005, 2006, 2007 and 2008.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves, loss adjustment expense reserves, and long duration unearned premium reserves, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2008 opinion stated the balances of reserves 1) meet the requirements of the insurance laws of Indiana, 2) are consistent with reserves computed in accordance with accepted loss reserving standards and principles, 3) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

The Company did not have any exposure to long duration contracts.

During the examination, it was determined by the IDOI consulting actuary, David Shepherd, FCAS, MAAA, the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2008 was agreed to the Annual Statement without exception. The Annual Statement for the years ended December 31, 2005 through December 31, 2008 were agreed to each year's independent audit report with no exceptions noted. The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

HCC INSURANCE COMPANY**FINANCIAL STATEMENTS****Assets**

	As of December 31, 2008			December 31 Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
Assets:				
Bonds (Schedule D)	\$ 24,675,351	\$ -	\$ 24,675,351	\$ 26,058,493
Cash, cash equivalents and short term investments	1,656,191	-	1,656,191	1,630,271
Receivables for securities	210,000	-	210,000	-
Investment income due and accrued agents balances in the course of collection	215,432 354,211	- -	215,432 354,211	221,992 2,046,319
Deferred premiums, agents balances and installments booked but deferred	635,905	-	635,905	1,082,445
Amounts recoverable from reinsurers	1,055,229	-	1,055,229	684,186
Receivables from parent, subsidiaries and affiliates	4,352	-	4,352	3,498
State income tax receivable	33,295	-	33,295	-
Total Assets	\$ 28,839,966	\$ -	\$ 28,839,966	\$ 31,727,204

HCC INSURANCE COMPANY**FINANCIAL STATEMENTS****Liabilities, Surplus and Other Funds****As of December 31, 2008**

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	\$ 1,359,296	\$ -	\$ 1,359,296	\$ 904,285
Other expenses	4,652	-	4,652	5,332
Taxes, licenses and fees	1,512	-	1,512	92,565
Current federal and foreign income taxes	162,786	-	162,786	7,305
Net deferred tax liability	19,884	-	19,884	22,326
Ceded reinsurance premiums payable	(2,188)	-	(2,188)	3,598,803
Payable to parent, subsidiaries and affiliates	56,347	-	56,347	50,500
Aggregate write-ins for liabilities	(1,335,258)	-	(1,335,258)	(879,074)
Total Liabilities	\$ 267,031	\$ -	\$ 267,031	\$ 3,802,042
 Common capital stock	 \$ 2,660,000	 \$ -	 \$ 2,660,000	 \$ 2,660,000
Gross paid in and contributed surplus	23,142,181	-	23,142,181	23,142,181
Unassigned funds (surplus)	2,770,754	-	2,770,754	2,122,981
Surplus as regards policyholders	\$ 28,572,935	\$ -	\$ 28,572,935	\$ 27,925,162
Total liabilities, capital and surplus	\$ 28,839,966	\$ -	\$ 28,839,966	\$ 31,727,204

HCC INSURANCE COMPANY**FINANCIAL STATEMENTS****Statement of Income****As of December 31, 2008**

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Premiums earned	\$ 8,308	\$ -	\$ 8,308	\$ 8,130
Losses incurred	\$ 526,956	\$ -	\$ 526,956	\$ (102,015)
Loss expenses incurred	-	-	-	-
Other underwriting expenses incurred	326,983	-	326,983	359,516
Aggregate write-ins for underwriting deductions	-	-	-	(131)
Total underwriting deductions	\$ 853,939	\$ -	\$ 853,939	\$ 257,370
Net underwriting gain (loss)	\$ (845,631)	\$ -	\$ (845,631)	\$ (249,240)
Net investment income	\$ 1,121,420	\$ -	\$ 1,121,420	\$ 1,211,682
Net realized capital gains or (losses)	(360)	-	(360)	(922)
Net investment gain	\$ 1,121,060	\$ -	\$ 1,121,060	\$ 1,210,760
Net gain (loss) from premium balances charged off	\$ -	\$ -	\$ -	\$ -
Aggregate write-ins for miscellaneous income	526,228	-	526,228	(107,189)
Total other income	\$ 526,228	\$ -	\$ 526,228	\$ (107,189)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 801,657	\$ -	\$ 801,657	\$ 854,331
Dividends to policyholders	-	-	-	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 801,657	\$ -	\$ 801,657	\$ 854,331
Federal and foreign income taxes incurred	155,675	-	155,675	163,140
Net Income	\$ 645,982	\$ -	\$ 645,982	\$ 691,191

HCC INSURANCE COMPANY**FINANCIAL STATEMENTS****Capital and Surplus Account****As of December 31, 2008****Capital and Surplus Account:**

Surplus as regards policyholders, December 31 prior year

Net income

Change in net unrealized capital gains [losses]

Change in net deferred income tax

Change in nonadmitted assets and related items

Capital changes: paid in

Dividends to stockholders

Change in surplus as regards policyholders for the year

Surplus as regards policyholders, December 31 current year

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
	\$ 27,925,160	\$ -	\$ 27,925,160	\$ 27,254,276
	\$ 645,982	\$ -	\$ 645,982	\$ 691,191
	-	-	-	-
	2,442	-	2,442	(20,307)
	(649)	-	(649)	-
	-	-	-	-
	-	-	-	-
	\$ 647,775	\$ -	\$ 647,775	\$ 670,884
	\$ 28,572,935	\$ -	\$ 28,572,935	\$ 27,925,160

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

There were no significant findings made as a result of this examination.

SUBSEQUENT EVENTS

Sale of the Company

As of the date of this report of examination, the Company's ultimate parent, HCC Insurance Holdings, Inc., is in the process of negotiating a sale of the Company. Following this process, the complete details of the proposed sales transaction will be provided to the IDOI as part of the required Form A filing.

Extraordinary Dividend

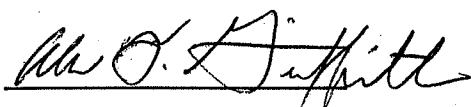
Effective December 8, 2009, the IDOI approved the payment of an extraordinary dividend of \$15 million. As part of the subsequent events review, the Examiners confirmed the dividend payment of the \$15 million to the Company's parent, Houston Casualty Company.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

CONCLUSION

The preceding Report of Examination of HCC Insurance Company as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, D. Patrick Huth, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of HCC Insurance Company.



Alan T. Griffith, CFE
Examinations Manager
Indiana Department of Insurance